

~~SECRET~~

CIA/IM-76 (19 November 1948)

ENCLOSURE A

Comments on Selected Fields of the Soviet Economy

1. Foreign Trade

Before the war the bulk of the Eastern European trade was conducted with the West through an exchange of Western manufactured goods for agricultural products and raw materials. The trade among the countries composing the present Soviet orbit was negligible. During 1946 and 1947, the Soviet Union assumed the leading position in Satellite trade, while the curtailed East-West trade was primarily financed by Western aid.

In 1948 the deteriorated East-West relations caused the suspension of the Western aid, imposition of export controls, and tightening economic encirclement, all of which created an acute problem to the Eastern planners. In order to meet growing urgent requirements for Western industrial equipment and strategic materials, the USSR and its Satellites are currently seeking to secure credits and increased trade from the West by all means possible.

2. Steel and Aluminum

By the end of 1948 it is estimated that Soviet raw steel production will have reached no more than 17.8 million metric tons. In comparison, production in 1940 stood at 18.3 million metric tons; dropped to 12.5 million by 1945; and then rose to 13.6 million in 1946, and to 14.8 million in 1947. The rapid increase in the postwar years has largely resulted from rehabilitation of war-damaged plants. Satellite production, which has risen about 2 million metric tons since the war, will add approximately 5.5 million metric tons to the Soviet totals.

In contrast to steel production, which by the end of 1948 will not have attained its prewar level, Soviet aluminum output in 1948 will exceed that in 1940 by about 135,000 tons, reaching a total of about 195,000 tons. Satellite production in 1948 will probably not add over 15,000 tons, although several of these countries can provide large quantities of high-grade bauxite.

~~SECRET~~

~~SECRET~~

### 3. Transportation

Rail transportation, which accounts for about 85 percent of all freight traffic, remains one of the chief bottlenecks in the Soviet economy. Freight haulage, as reflected in average daily carloadings, is expected to approach the 1940 level by July 1949. Judging by reports of progress under the current Five-Year Plan, however, both construction and rehabilitation of railways are behind planned production levels. The rolling-stock position, though difficult to estimate, should be somewhat better by July 1949 than it was in 1940. Nevertheless, locomotives and rolling stock must still be used intensively to meet the increased demands of industry.

Apparently the Satellite transportation systems are in fairly good condition; nearly all war damage has been "shored up", and traffic movements approximate prewar tonnages. On the other hand, locomotive and freight car inventories are still 24 percent and 18 percent, respectively, below 1938 levels; most equipment is superannuated and in bad repair, and production of new equipment is syphoned off by the Soviets. In the next few years it can be expected that these superficially healthy systems will be strengthened by enlarged workshop capacity, improved rights-of-way, increases in vehicle inventory, and reduction in average age of vehicles. The consolidation of all Satellite systems into one integrated network, has already increased efficiencies and will account for great increases in capacity and flexibility. By 1953, the integrated road, rail, and river transport system of the Satellite countries will be basically sound enough to support a rapid expansion of transport-capacity, whenever the Soviets wish to re-divert Satellite industrial production back to the Satellite transport system.

### 4. Food and Agriculture

Per capita production of the main foodstuffs in the USSR and Satellite countries for the 1948-49 consumption year is estimated at between 80 and 85 percent of prewar. This represents an increase of roughly 5 percent over the 1947-48 consumption year and 10 percent over the 1946-47 consumption year. Because of expected increase in the population of Eastern Europe, per capita production of foodstuffs cannot be expected to reach the prewar level before about 1956-57. If, however, collectivization of agriculture in certain Satellite countries should take place during the five-year period 1950-55, a decrease in production might result, thereby delaying recovery to the prewar level until sometime after 1960.

~~SECRET~~

~~SECRET~~

## 5. Machine Tools

It is estimated that 1948 production of machine tools will not reach the average prewar annual output of approximately 22,000 units. The Soviet stock of machine tools, however, will probably attain the goal of 1,300,000 units by 1950, largely as a result of rehabilitation of recovered machine tools, postwar imports, and the immense plant-dismantling program in Germany, Manchuria, Hungary, and Austria.

The chief deficiencies will be: (1) a shortage of special purpose tools; (2) inadequate maintenance; (3) high rate of depreciation; and (4) shortage of replacement parts for machine tools of western manufacture.

## 6. Petroleum

Soviet crude-oil production is expected to reach the 1940 level of 31.2 million metric tons by the end of 1948. The relatively low level of crude oil output in 1946 and 1947 was primarily a result of emphasis placed on reconstruction and rehabilitation of the entire industry. With this phase of the plan largely completed by the early part of 1948, the Soviets began to concentrate on attaining an annual expansion rate of 3.2 million metric tons. Although this anticipated improvement is being realized, mechanization of both the civilian economy and the war machine has increased consumption of petroleum products to greater quantities than had been anticipated, and deficiencies of high-grade gasoline and lubricants will continue to handicap the Soviets for some time. Soviet peacetime military and civilian requirements, however, will be fulfilled under present Soviet policy of vigorous exploitation of indigenous reserves, stringent allocation of domestic production, utilization of synthetic fuels and imports from satellites.

Satellite output of crude petroleum has not been as high as expected since the close of World War II. About 1.5 million tons of petroleum products are currently being shipped to the USSR, however, and in the event of war approximately 4,000,000 tons could be made available.

## 7. Chemicals

Indications are that economic recovery in the field of chemicals has been rapid and that it is being accelerated. Average production

~~SECRET~~

~~SECRET~~

on a tonnage basis for 1948 is reported to be 145% of 1947. Based on present data, production of major basic chemicals will range from 1/5 to 1/2 of the corresponding U. S. tonnages. Reports based on fairly recent Russian Technical Journals show intense research and development activity on a very wide range of chemical products. Comparatively little of this seems to be pure research but rather development of processes designed to produce tonnage chemicals. It is safe to assume, therefore, that the Soviets have the required intermediate raw material.

All indications point to a rapidly expanding technical operating staff. It is not safe to assume inability to produce industrial mobilization chemicals in sufficient volume for a heavy initial war effort. Little information is available on facilities such as specialized tank cars, high pressure cylinders or drums necessary to transport chemicals. These may be a serious bottleneck. There seems also to be a serious deficiency in capacity to produce control apparatus. Manufacture of these requires great skill and technical knowledge, the lack of which will probably be a serious handicap for some time.

#### 8. Coal

Through restoration of war-damaged mines, development of new fields, and continuous increases in productivity of new fields, Soviet coal output by the end of 1948 is expected to reach 200 million metric tons as compared to the 1945 level of 161 million and the 1940 level of 166 million. This rapid improvement is largely reflected in Soviet concentration on rehabilitation of war-damaged coal regions.

In the Satellite area, rehabilitation of the coal industries has increased total production of hard coal and brown coal from approximately 145 million metric tons in 1945 to 227 million in 1947. This represents an increase of nearly 7 million tons over 1938. Poland alone had an exportable surplus of 20 million tons in 1947, approximately 10 million of which went to the Soviet Union. In wartime it is estimated that between 25 and 30 million tons could be shipped to the USSR.

#### 9. Electric Power

Electric power output in the Soviet Union is likely to reach an annual rate of approximately 70 billion kwh by the end of 1948. The installed capacity to be expected is between 15 and 16 million kw as

-4-

~~SECRET~~

**SECRET**

compared to the 1941 capacity of 11.4 million kw. Although new installation has been somewhat behind schedule, expansion in electric power production facilities has been satisfactory in the post-war period.

The electric power situation in the Satellite countries and Soviet Zones has improved each year since the war; yet there is still a shortage in most of the area. The output in 1947 of nearly 24 billion kilowatt hours was almost 1 billion greater than in 1938; and effective capacity rose from 5,800,000 kilowatts in 1938 to 6,000,000 in 1947.

#### 10. Industrial Efficiency

The industrial efficiency of the USSR will remain at a comparatively low level through 1949 because of the shortage of skilled labor, low productivity of labor, backward technology, bureaucratic methods of management, industrial waste, insufficient transport capacity, and continued dislocation of industry and population.

The Satellite countries will not have regained their prewar level of industrial efficiency by July 1949 because of wartime losses of skilled labor and engineers; inept Soviet interference; the natural antagonism of many workers to Communist control, and shortages of certain machinery and materials.

**SECRET**